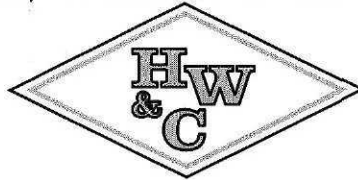


**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Pride, Louisiana
December 31, 2011**

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May 23, 2012

Independent Auditor's Report

Board of Directors
Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Pride, Louisiana

We have audited the accompanying statements of financial position of the

**Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
(A Non Profit Organization)
Pride, Louisiana**

as of December 31, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund are intended to present the financial position, changes in net assets and cash flows that are attributable to the transactions of the Fund. They do not purport to, and do not, present fairly the financial position of the Rural Hospital Coalition, Inc., as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 23, 2012, on our consideration of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Yours truly,

Hawthorn, Weymouth & Carroll, LLP

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Statements of Financial Position
December 31, 2011 and 2010

A s s e t s

	<u>2011</u>	<u>2010</u>
Current Assets		
Cash and cash equivalents	\$1,047,387	\$1,274,450
Prepaid expenses	<u>107,783</u>	<u>245,638</u>
Total current assets	<u>1,155,170</u>	<u>1,520,088</u>
Fixed Assets		
Equipment	8,507,789	8,507,789
Less: accumulated depreciation	<u>(5,754,828)</u>	<u>(4,053,270)</u>
Total fixed assets, net	<u>2,752,961</u>	<u>4,454,519</u>
 Total assets	 <u>\$3,908,131</u>	 <u>\$5,974,607</u>

L i a b i l i t i e s a n d N e t A s s e t s

Current Liabilities		
Accounts payable	\$ 283,618	\$ 671,504
Deferred revenue	<u>871,552</u>	<u>848,584</u>
Total current liabilities	1,155,170	1,520,088
 Net Assets		
Unrestricted	<u>2,752,961</u>	<u>4,454,519</u>
 Total liabilities and net assets	 <u>\$3,908,131</u>	 <u>\$5,974,607</u>

The accompanying notes are an integral part of these statements.

**Rural Hospital Coalition, Inc. -
LARHIX Appropriation Fund
Statements of Activities
Years Ended December 31, 2011 and 2010**

<u>Unrestricted</u>	<u>2011</u>	<u>2010</u>
Revenue and Support		
State appropriations	\$1,877,032	\$3,085,751
Interest income, restricted	<u>2,303</u>	<u>2,257</u>
Total revenue	<u>1,879,335</u>	<u>3,088,008</u>
Expenses		
Program Services		
Dues and subscriptions	4,368	1,768
Hospital EMR systems	-	859,972
LSU contract services	<u>258,674</u>	<u>254,549</u>
Total program services	<u>263,042</u>	<u>1,116,289</u>
Operating Services		
Advertising	2,658	2,070
Maintenance of Integration Engine	-	233,619
Maintenance of EMR systems	1,166,058	1,020,937
Office supplies	2,865	9,532
Depreciation expense	1,701,558	1,699,931
Postage	736	408
Printing	4,358	3,138
Rent - office space	7,200	7,200
Staff professional fees	405,010	437,564
Travel	17,758	34,329
Telephone	<u>9,650</u>	<u>8,019</u>
Total operating services	<u>3,317,851</u>	<u>3,456,747</u>
Total expenses	<u>3,580,893</u>	<u>4,573,036</u>
Change in Net Assets	(1,701,558)	(1,485,028)
Net Assets, Unrestricted		
Beginning of year	<u>4,454,519</u>	<u>5,939,547</u>
End of year	<u>\$2,752,961</u>	<u>\$4,454,519</u>

The accompanying notes are an integral part of these statements.

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows From Operating Activities		
Change in net assets	\$(1,701,558)	\$(1,485,028)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	1,701,558	1,699,931
(Increase) Decrease in assets:		
Accounts receivable	—	54,410
Prepaid expenses	137,855	(245,638)
Increase (Decrease) in liabilities:		
Accounts payable	(387,886)	189,226
Deferred revenue	<u>22,968</u>	<u>(1,185,752)</u>
Net cash used in operating activities	<u>(227,063)</u>	<u>(972,851)</u>
Cash Flows From Investing Activities		
Purchase of equipment	<u>—</u>	<u>(214,903)</u>
Net cash used in investing activities	<u>—</u>	<u>(214,903)</u>
Net Decrease in Cash and Cash Equivalents	(227,063)	(1,187,754)
Cash and Cash Equivalents, beginning of year	<u>1,274,450</u>	<u>2,462,204</u>
Cash and Cash Equivalents, end of year	<u><u>\$ 1,047,387</u></u>	<u><u>\$ 1,274,450</u></u>

The accompanying notes are an integral part of these statements.

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Notes to Financial Statements
December 31, 2011

Note 1-Nature of Organization and Activities

The Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund ("the Fund") is a restricted fund of the Rural Hospital Coalition, Inc. ("the Coalition"), used to report activity related to the State of Louisiana appropriations paid to the Coalition for disbursement in accordance with contractual agreements between the Coalition and the Louisiana Department of Health and Hospitals. This Fund is an integral part of the basic financial statements of the Coalition, and accordingly, is included in the Coalition's financial statements. The Fund is used to report the Coalition's receipt, custody, and disbursement of funds received from the State of Louisiana, which management considers a quasi governmental operation.

The Coalition has a cooperative endeavor agreement with the Louisiana Department of Health and Hospitals (DHH) to increase access to primary medical care for residents in rural areas of Louisiana. The Coalition, in conjunction with DHH and the Louisiana State University Health Sciences Center - Shreveport (LSUHSC-S), established an infrastructure known as the Louisiana Rural Health Information Exchange or LARHIX to achieve a public purpose: "to continue the collaboration with rural physicians and rural hospitals in North Louisiana by sponsorship of continuing medical education, furnishing medical consultation to and with physicians and rendering other support as may be appropriate." The Network includes LSUHSC-S and rural hospitals located in Louisiana north of an east/west line drawn through Bunkie, Louisiana, and any other health care providers that the Network deems appropriate (Catchment Area). The Coalition, in conjunction with LSUHSC-S, select the rural hospitals operating in the Catchment Area which may receive technical and financial support made available, pursuant to the Act, for acquisition of a hospital information system (IT System), after signing an agreement, the form of which was pre-approved by DHH and the Coalition. Procurement of IT Systems follows a process similar to that specified in the Telecommunications and Data Processing Procurement Law (LSA RS 38:2234). If a hospital fails to fully participate in the Network or timely acquire or utilize the health information system, the Coalition may select a replacement hospital and transfer any unobligated funds and, to the extent possible, transfer the acquired IT System hardware and software to a replacement hospital. The Coalition, through LARHIX, provides the Network with an Integration Engine (provides communication software whereby hospitals using different software may communicate with other healthcare providers) during this Agreement that is to be used for the public purpose. Should DHH in conjunction with the Coalition and LSUHSC-S determine the Integration Engine and Network are no longer utilized in furtherance of the public purpose, the Integration Engine shall revert to the State. Each annual cooperative endeavor agreement provides a budget and guidance regarding the disbursement of the respective annual appropriations from the State of Louisiana. Each appropriation is deposited into a restricted, interest bearing account, all of which must be used consistent with the annual agreement in furtherance of the public purpose.

RHC's contract with DHH terminates June 30, 2014, contingent upon and limited by annual appropriations. The appropriation is \$1,000,000 for the state fiscal year July 1, 2011 through June 30, 2012.

Note 2-Summary of Significant Accounting Policies

A. Basis of Accounting and Presentation

The accompanying financial statements have been presented on the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Notes to Financial Statements
December 31, 2011

Note 2-Summary of Significant Accounting Policies (Continued)

A. Basis of Accounting and Presentation (Continued)

The Fund reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Unrestricted net assets include those net assets whose use by the Fund is not restricted by donors, even though their use may be limited in other respects, such as by contract or board designation. Temporarily restricted net assets are those net assets whose use by the Fund has been limited by donors (a) to later periods of time or other specific dates, or (b) to specified purposes. Permanently restricted net assets are those net assets received with donor-imposed restrictions limiting the Fund's use of the assets. At December 31, 2011 and 2010, the Fund had no temporarily or permanently restricted net assets.

B. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

C. Cash and Cash Equivalents

For purposes of the statements of cash flows, cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

D. Fixed Assets

The Fund follows the practice of capitalizing, at cost, all expenses for fixed assets in excess of \$1,000. Depreciation is provided for, principally on a straight-line basis in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives of five years.

E. Revenue and Support

Revenue is limited to appropriations from the State of Louisiana and interest earned on those deposits. The use of these funds are specified in the agreements between the Coalition and DHH. The agreements define services allowable within the scope of work applicable to the appropriation. Revenue is deferred until expenses are incurred.

F. Expenses

Expenses are reported in categories similar to those prescribed within the Fund's budgets, as approved by DHH. Staff professional fees and LSU contract services are contract labor costs. As such, payroll taxes and benefit costs are the responsibility of the contractor. Because funding varies from year-to-year, it is impractical to hire staff and establish benefit packages necessary to hire qualified staff as employees.

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Notes to Financial Statements
December 31, 2011

Note 2-Summary of Significant Accounting Policies (Continued)

G. Income Taxes

The Fund is an integral part of the financial statements of the Coalition, which is exempt from income taxes under Internal Revenue Code Section 501(c)(6). The Fund's activity is considered to be an activity related to the Coalition's exempt purpose and accordingly, no income taxes are reported.

The Coalition adheres to the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. The Coalition recognizes the effect of income tax positions only if the positions are more likely than not of being sustained. Recognized income tax positions are recorded at the largest amount that is greater than 50% likely of being realized. Changes in the recognition or measurement are reflected in the period in which the change in judgment occurs.

The Coalition has evaluated its position regarding the accounting for uncertain income tax positions and does not believe that it has any material uncertain tax positions. The Coalition's tax returns for the years ended December 31, 2008, 2009 and 2010 remain subject to examination by taxing authorities.

Note 3-Concentration of Risk

At various times during the year, cash and cash equivalents on deposit with one banking institution exceeded the amount insured by the Federal Deposit Insurance Corporation. Management monitors the financial condition of the institution on a regular basis, along with their balances in cash and cash equivalents, to minimize this potential risk.

Note 4-Economic Dependency

The LARHIX program is funded through State of Louisiana appropriations. If the state should fail to appropriate future funds, the LARHIX program would no longer be able to operate without a new source of funding.

Note 5-Subsequent Events

Management of the Fund has evaluated all subsequent events through May 23, 2012, the date the financial statements were available to be issued. As a result, management noted no subsequent events that required adjustment to, or disclosure in, these financial statements.

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May 23, 2012

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

Board of Directors
Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Pride, Louisiana

Members of the Board:

We have audited the financial statements of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund as of and for the year ended December 31, 2011, and have issued our report thereon dated May 23, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors, management, others within the entity, awarding agencies and passthrough entities, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Yours truly,

Hawthorn, Weymouth & Carroll, LLP

**Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Schedule of Current Year Audit Findings
Year Ended December 31, 2011**

Findings - Financial Statement Audit

None.

Rural Hospital Coalition, Inc. - LARHIX Appropriation Fund
Schedule of Prior Year Audit Findings
Year Ended December 31, 2011

Findings - Financial Statement Audit

None.